



DCU BULLETIN

Division of Credit Unions

Washington State Department of Financial Institutions

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Bank Secrecy Act Guidance and Exam Procedures

On June 30, 2005, the Federal Financial Institution Examination Council (FFIEC) released new examination procedures relating to the Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) as well as the BSA/AML infobase. Both of these resources provide excellent guidance and cover a wide variety of BSA/AML topics. These resources can be found on the FFIEC website at www.ffiec.gov. The specific webpage URLs are:

- (1) Exam manual - http://www.ffiec.gov/bsa_aml_infobase/documents/BSA_AML_man.pdf
- (2) Infobase - http://www.ffiec.gov/bsa_aml_infobase/default.htm

The good news is that many of the procedures discussed in the exam manual and infobase do not apply to a majority of Washington state chartered credit unions. However, credit union leadership needs to institute policies, procedures and processes that are appropriate for the unique BSA/AML challenges and exposures that their credit unions encounter. It is very important that these policies, procedures, and processes be consistently applied to all areas of a credit union's business structure.

BSA/AML Activities a Credit Union Should Perform

The key to BSA/AML compliance for most credit unions will be performing an in-depth risk assessment. Management should focus greater compliance efforts on the business lines that present the most risk to their credit union. The following are core areas of compliance that should be addressed by all credit unions:

- Customer Identification Program
- Customer Due Diligence (these are policies, procedures and processes that assist your credit union in detecting, monitoring and reporting suspicious activity)
- Suspicious Activity Reporting (SAR)
- Currency Transaction Reporting (CTR)
- CTR Exemptions
- Purchase and Sale of Monetary Instruments
- Funds Transfers

- Information Sharing (BSA includes statutory and regulatory requirements for special information sharing procedures to deter money laundering and terrorist activities, such as sharing information with FinCEN)

Note that OFAC requirements are separate and distinct from the BSA. All credit unions must also comply with OFAC's regulations.

All the areas listed above, OFAC, and any other areas of concern as determined by your credit union's business lines should be included in an analysis of the BSA/AML risk assessment that your credit union performs. We recommend that your credit union use Appendix I (BSA/AML Self Assessment) to aid management in performing the risk assessment. This attached questionnaire will help your credit union identify areas of weakness and then address concerns. This questionnaire is not to be submitted to the Division.

Division examiners will ask to see your credit union's most recent risk assessment during the examination. Examiners will use this risk assessment to help set the scope for the BSA/AML portion of the exam. Division examiners will also ask for and review the BSA independent testing report.

Also attached to this Bulletin are Appendices II and III. Appendix II illustrates the importance of the risk assessment and how the risk assessment is linked to the credit union BSA/AML compliance program. Appendix III suggests possible appropriate risk weightings that examiners will use for a variety of the risk elements that credit unions may encounter.

Division Exam Procedures

Examiners will focus significant attention on the following areas:

- Board approved policies
- Training appropriate to the level of staff involvement
- Credit union transaction monitoring and reporting procedures
- Independent testing of credit union BSA/AML efforts, either by independent credit union staff or a third party

Examiners will also sample individual transactions for testing compliance with regulatory guidance and credit union policies and procedures.










Resources











BSA/AML guidance for credit unions can be found at the following websites:











- FFIEC – www.ffiec.gov (click on BSA/AML Examination Database)
- FinCEN – www.fincen.gov (click on BSA guidance)
- CUNA Compliance – www.cuna.org/compliance (webinars & training)
- WA CU League Compliance Manual- www.compliance.waleague.org (look under Resources tab & under Operations & Security Tab, also see the June 9th Webinar.)
- NASCUS On-line University – www.nascusonline.org

Please contact Doug Lacy-Roberts at (360) 902-0507, if you have any questions about this Bulletin.









Bank Secrecy Act (BSA) & Anti-money Laundering (AML) Self Assessment

			Yes/No	Comments
Basic Requirements - Policy				
1.0.0	Has management established and your credit union's board of directors approved an appropriate written program to assure the CU meets BSA reporting and recordkeeping requirements?			
1.0.a	• Internal Controls (748.2c1)			
1.0.b	• Independent Testing (748.2c2)			
1.0.c	• Responsible Individual (748.2c3)			
1.0.d	• Training (748.2c4)			
1.0.e	• Customer Identification (748.2b)			
Basic Requirements - Risk Assessment				
2.0.	Has a risk assessment been performed which assists CU personnel to effectively manage BSA/AML risk? The risk assessment is important in helping management to tailor the BSA/AML program to address the particular risks inherent to your credit union's operations. Some of the things to consider are your credit union's mix of products, services, customers and geographic locations.			
2.0(a)	If so, is this risk assessment documented? Has your credit union received correspondence from law enforcement or outside regulatory agencies relating to BSA compliance since the last examination?			
Basic Requirements - Independent Testing				
3.0.	Is your credit union's independent testing adequate for the size and complexity of the institution? 748.2c2			
3.0(a)	Is the independent testing for BSA/AML compliance performed by an individual(s) who are knowledgeable about BSA/AML regulations and who are completely independent from the day-to-day BSA/AML operations of your credit union.			
Basic Requirements - Customer Identification Program (CIP)				

4.0.0	Has your credit union established a Customer (member) Identification Program (CIP)? 103.121		
4.0.a	a. Does the CIP require the minimum information (name, date of birth, address, identification number) prior to opening an account? 103.121b2		
4.0.b	b. Does the CIP require verification of the information obtained? 103.121b2		
4.0.c	c. Does your CU have a process for handling exceptions to the standard CIP policy?		
4.0.d	d. Does your CU keep CIP data for five years after the account is closed and CIP documents for, at least, five years after account is opened?		
Basic Requirements - CU Training Program			
5.0.	Is your credit union's training adequate for the size and complexity of your institution? 748.2c4		
Basic Requirements - CU BSA Officer Knowledge & Qualifications			
6.0.	Does your credit union's BSA officer have appropriate knowledge, resources, and authority - commensurate with the complexity of your credit union's operations?		
Basic Requirements - Information Sharing (FinCEN)			
7.0.	Has your CU designated an accurate point of contact on the most recent 5300 to receive 314a information requests from FinCEN regarding investigations of terrorist activity or money laundering? 103.100b2iii		
7.0.a	• Is your CU accessing the electronic list on FinCEN's secure website or receiving fax transmissions? 103.100b		
7.0.b	• Does your CU begin its search, required by the 314a information request, promptly and complete it within 2 weeks, reporting any matches to FinCEN upon detection? 103.100b2		
Reporting - Currency Transaction Reports (CTR)			
8.0.	Does your credit union have an adequate process for identifying transactions that require completion of a Currency Transaction Report (CTR)? 103.122		

8.0.a	<ul style="list-style-type: none"> Does your CU file a CTR, Form 104, with the IRS for all transactions (103.22b), and multiple transactions in currency occurring in one day greater than \$10,000 in currency (103.22c), unless the transaction is exempt from reporting? 		
8.0.b	<ul style="list-style-type: none"> Is the CTR filed within 15 days after the transaction occurs? 103.27a1 		
8.0.c	<ul style="list-style-type: none"> Does your CU properly exempt permitted persons from CTR filing by filing a "Designation of Exempt Person" form? 103.22d2 and 103.22d3 		
8.0.d	<ul style="list-style-type: none"> For exempt persons, does your CU perform an annual review of the account (103.22d4) and renew, biennially (103.22d5), a statement certifying that the exempt person's account was monitored and the exemption remains appropriate? 		
Reporting - Suspicious Activity Reports (SAR)			
9.0.	Does your CU have an adequate process for identifying suspicious transactions and monitoring accounts for suspicious activity? 103.18a2iii		
9.0.a	<ul style="list-style-type: none"> Is a Suspicious Activity Report (SAR) filed within 30 days after discovery of a suspicious activity? 103.18b3 		
9.0.b	<ul style="list-style-type: none"> Is supporting documentation for a SAR retained for 5 years? 103.18d 		
9.0.c	<ul style="list-style-type: none"> Does your CU document the decision process on whether to file a non-mandatory SAR? 		
Recordkeeping - Monetary Instruments Log (\$3,000 to \$10,000)			
10.0.	Does your CU maintain the necessary information for the purchase or issuance, by currency, of credit union checks, cashier's checks, traveler's checks, and money orders for amounts between \$3,000 and \$10,000? 103.29a and 103.29b		
Recordkeeping - Maintaining Historical Records on Certain Transactions			
11.0.	Does your CU maintain adequate historical records on certain transactions for 5 years? Use the list below as a checklist.		

11.0.a	• Extensions of credit greater than \$10,000, except those secured by an interest in real property? (103.33(a))		
11.0.b	• Attempts to transfer more than \$10,000 to or from any person, account or place outside the U.S.? (103.33(b))		
11.0.c	• All signature cards? (103.34(b)(1))		
11.0.d	• Member transaction statements or ledger cards? (103.34(b)(2))		
11.0.e	• CU and member share drafts or money orders over \$100? (103.34(b)(3))		
11.0.f	• All withdrawals, other than share drafts or money orders, over \$100 to accounts, except CU charges or periodic charges made pursuant to an agreement? (103.34(b)(4))		
11.0.g	• Transfers of more than \$10,000 to any person, account, or place outside the US? (103.34(b)(5,6))		
11.0.h	• Drafts over \$10,000 issued by, or drawn on, a foreign bank and paid by your CU? (103.34(b)(7))		
11.0.i	• Transfers of credit, cash, drafts, other checks, investment securities or other monetary instruments over \$10,000 received directly from a foreign bank, broker or dealer in currency located outside the US? (103.34(b)(8,9))		
11.0.j	• Records which allow tracing of deposited share drafts over \$100? (103.34(b)(10))		
11.0.k	• Name, address, taxpayer ID#, date of transaction, description of instrument, and method of payment for purchases and redemptions of share certificates? (103.34(b)(11,12))		
11.0.l	• Deposit slips or credit checks for transactions, or equivalent wire transfer and direct deposit transactions, over \$100 which specify the amount of currency involved? (103.34(b)(13))		
Specific Products & Services (Wire Transfers)			

12.0.0	Since the prior exam, has your CU offered wire transfer services? If the answer is NO, skip to question 13		
12.0.a	• With regard to wire transfers, does your CU retain, for 5 years, the required information for each payment order that it accepts of \$3,000 or more? 103.33e		
12.0.b	• Is the required wire transfer information, identified in the above question, retrievable by reference to the originator's name and account number? 103.33e4		
Specific Products & Services (Physical Transportation of Currency Outside the US (over \$10k) or Have Maintenance of an Account in a Foreign Country)			
13.0.	Has your CU been involved with the transportation of currency outside the US or maintenance of an account in a foreign country? If the answer is NO, skip to question 14.		
13.0.a	• Does your CU file a US Customs Form 4790 for the physical transportation of currency in excess of \$10,000 into or outside the USA?		
13.0.b	• Is a Report of Foreign Bank and Financial Accounts indicating a financial interest in an account in a foreign county filed annual on or before June 30? 103.24		
Third Party Service Providers			
14.0.	Does your CU using a third party service provider?		
14.0.a	Does your CU have an adequate due diligence process for reviewing actions taken by the third party to comply with BSA requirements on behalf of the CU?		
Maintaining a List of High Risk Accounts			
15.0.	Does your credit union maintain a list of high risk accounts?		

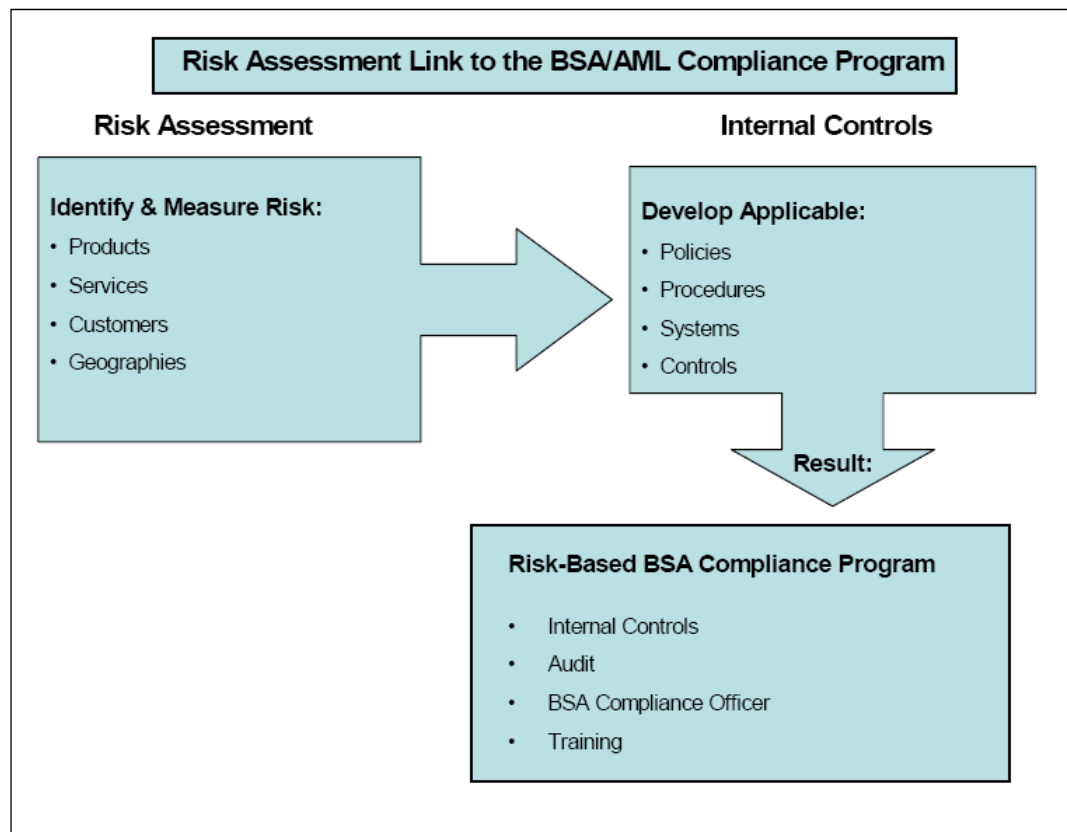
Do Not Submit this Form to the Division of Credit Unions

APPENDIX II

BANK SECRECY ACT/ANTI-MONEY LAUNDERING EXAMINATION MANUAL

APPENDIX I

RISK ASSESSMENT LINK TO THE BSA/AML COMPLIANCE PROGRAM



APPENDIX III

BANK SECRECY ACT/ANTI-MONEY LAUNDERING EXAMINATION MANUAL

APPENDIX J

QUANTITY OF RISK MATRIX

Examiners should use the following matrix, as appropriate, when assessing the quantity of BSA/AML risks.

Low	Moderate	High
Stable known customer base.	Customer base increasing due to branching, merger, or acquisition.	A large and growing customer base in a wide and diverse geographic area.
No electronic banking (e-banking) or the web site is informational/non-transactional.	The bank is beginning e-banking and offers limited products and services.	The bank offers a wide array of e-banking products and services (i.e., account transfers, e-bill payment or accounts opened via the Internet).
On the basis of information received from the BSA-reporting database, there are few or no large currency or structured transactions.	On the basis of information received from the BSA-reporting database, there is a moderate volume of large currency or structured transactions.	On the basis of information received from the BSA-reporting database, there is a significant volume of large currency or structured transactions.
Identified a few high-risk customers and businesses.	Identified a moderate number of high-risk customers and businesses. These may include check cashers, convenience stores, money transmitters, casas de cambio, import or export companies, offshore corporations, politically exposed persons (PEPs), nonresident aliens (NRAs), and foreign individuals).	Identified a large number of high-risk customers and businesses. These may include check cashers, convenience stores, money transmitters, casas de cambio, import or export companies, offshore corporations, PEPs, NRAs, and foreign individuals).

Low	Moderate	High
No foreign correspondent financial institution accounts. The bank does not engage in pouch activities, offer special-use accounts, or offer payable through accounts (PTAs), or provide U.S. dollar draft services.	The bank has a few foreign correspondent financial institution accounts, but typically with financial institutions with adequate AML policies and procedures from low-risk countries, and minimal pouch activities, special-use accounts, PTAs, or U.S. dollar draft services.	The bank maintains a large number of foreign correspondent financial institution accounts with financial institutions with inadequate AML policies and procedures from, particularly located in high-risk jurisdictions, or offers substantial pouch activities, special-use accounts, PTAs, or U.S. dollar draft services.
The bank offers limited or no private banking services or trust and asset management products or services.	The bank offers limited domestic private banking services or trust and asset management products or services over which the bank has investment discretion. Strategic plan may be to increase trust business.	The bank offers significant domestic and international private banking or trust and asset management products or services. Private banking or trust and asset management services are growing. Products offered include investment management services, and trust accounts are predominantly nondiscretionary versus where the bank has full investment discretion.
Few international accounts or very low volume of currency activity in the accounts.	Moderate level of international accounts with unexplained currency activity.	Large number of international accounts with unexplained currency activity.
A limited number of funds transfers for customers, noncustomers, limited third-party transactions, and no foreign funds transfers.	A moderate number of funds transfers. A few international funds transfers from personal or business accounts with typically low-risk countries.	A large number of noncustomer funds transactions and payable upon proper identification (PUPID) activity. Frequent funds from personal or business accounts to or from high-risk jurisdictions, and financial secrecy havens or jurisdictions.

Low	Moderate	High
The bank is not located in a high-intensity drug trafficking area (HIDTA) ¹⁷² or high-intensity financial crime area (HIFCA). No fund transfers or account relationships involve HIDTAs or HIFCAs.	The bank is located in an HIDTA or an HIFCA. Bank has some fund transfers or account relationships that involve HIDTAs or HIFCAs.	Bank is located in an HIDTA and an HIFCA. A large number of fund transfers or account relationships involve HIDTAs or HIFCAs.
No transactions with high-risk geographic locations.	Minimal transactions with high-risk geographic locations.	Significant volume of transactions with high-risk geographic locations.
Low turnover of key personnel or frontline personnel (i.e., customer service representatives, tellers, or other branch personnel).	Low turnover of key personnel, but frontline personnel in branches may have changed.	High turnover, especially in key personnel positions.

¹⁷² A list of HIDTAs is available at www.whitehousedrugpolicy.gov/index.html